

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58182

NORTH THURSTON SCHOOL DISTRICT NO. 3

Thurston County, Washington

September 1, 1995 Through August 31, 1996

Issue Date: April 18, 1997

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NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to North Thurston School District No. 3 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington (RCW) 43.09.260*. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

Schedule Of Findings

1. Public Funds Were Misappropriated

Our audit of the financial records of New Century High School revealed that at least \$17,178.16 in public funds was misappropriated by the former attendance secretary/registrar during the period September 1, 1992, through September 30, 1996. There were no federal funds involved in this case.

In September 1996, the director of financial services at North Thurston School District notified the Office of State Auditor of possible irregularities in cash receipting procedures at New Century High School and began an investigation of this matter. Their investigation revealed that the former attendance secretary/registrar misappropriated public funds during the period of her employment. During our audit, we reviewed the results of the district's investigation and agree with their findings and conclusions, except for the total amount of the loss. Our review disclosed additional revenue losses at New Century High School. These funds were misappropriated as described below.

The former attendance secretary/registrar took recorded cash receipts from a variety of revenue sources at New Century High School. Cash collections were simply not deposited in the district's bank accounts. In addition, three General Fund cash receipt books issued to this employee were either lost or destroyed prior to our audit. The schedule below summarizes these losses by source of revenue.

<u>Description</u>	<u>Amount</u>
Traffic Safety Fees	\$16,197.00
Petty Cash	106.21
Fees and Fines	174.95
Donation	150.00
Photography Class	<u>550.00</u>
Total Losses	<u>17,178.16</u>
Less Restitution	<u>(6,047.95)</u>
Net Loss of Funds	<u>\$11,130.21</u>

The former attendance secretary/registrar was solely responsible for General Fund activities at New Century High School. On September 24, 1996, she admitted to district management officials that she had misappropriated public funds during the period of her employment. She also subsequently confessed these activities to the Lacey Police Department. This employee resigned her employment at the district prior to the discovery of these losses.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer.

Every public officer, and every other person receiving money on behalf of for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

- (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed these losses to occur without being detected in a timely manner by district management officials.

- a. There was an inadequate segregation of duties. Practically all of the accounting functions for General Fund activities at New Century High School were the sole responsibility of the former attendance secretary/registrar. However, there was no periodic management review or monitoring of the work performed by this individual which would accomplish the same objective as a segregation of duties between two or more employees.
- b. Deposits were not made intact daily.
- c. The district did not perform an analytical review of all cash receipts to periodically review the reasonableness of revenues from the schools. For example, no one independent of the attendance secretary/registrar verified that actual traffic safety fees collected at New Century High School agreed with the total revenue received for a specified period of time or that actual traffic safety revenue was comparable from one accounting period to the next.
- d. The district did not adequately monitor cash receipts, bank deposits, and associated daily activity reports from the school to ensure that all funds were properly accounted for and controlled.

- e. The physical security at New Century High School was inadequate to properly protect accounting records and funds from loss or premature destruction. New Century and River Ridge High Schools employees occupy the same office space, and certain accounting records were commingled.

We recommend North Thurston School District seek recovery of the misappropriated \$11,130.21 and related audit/investigation costs from the former attendance secretary/registrar and its insurance bonding companies. We further recommend the Washington State Office of the Attorney General and the Thurston County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

Insurer:	State Farm	United Pacific
Type of Policy:	Bonding	Crime Policy
Policy Number:	98-03-5569-7F	U262 37 11
Amount	\$100,000 (with \$1,000 deductible provision)	
	\$500,000 (with \$5,000 deductible provision)	
Period:	1/1/92-8/31/95	9/1/95-9/1/97

We also recommend the district review overall accounting controls at all schools, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

Auditee's Response

The District is in concurrence with the Finding as presented. The District offers the following information in response to the specific internal control weaknesses identified in the Finding.

The District will direct the Principal of New Century High School to take steps to ensure that duties are adequately segregated or periodically monitored by the Principal. New Century and River Ridge High School staff will be given technical assistance by the District office in locating separate and more secure physical locations for accounting records. The District will reinforce with New Century management that Board Policy 6210 required periodic review of financial records by Principals. Further, New Century staff will be warned again not to leave funds in desks or lockers. Finally, the District will hold New Century management accountable for ensuring that daily deposits are made as required by Board policy.

The District has implemented an improvement plan that requires staff from New Century high School to receive training. Some of that training has already been provided during the winter of 1997. In addition, New Century High School management has been requested to review job descriptions and related Board policies. The District, on February 7, 1997, requested the New Century High School Principal to develop a process/system designed to address the monitoring of fiscal operations at the school.

At the District level, fiscal staff has been directed to periodically perform analytical review of deposits. Furthermore, district staff will implement a receipt reconciliation process to monitor deposits from all schools. The District is presently reviewing districtwide accounting controls to provide a more effective method of internal controls. Additionally, intermittent unscheduled visits will be made to buildings by district office finance staff to monitor compliance.

We appreciate the assistance that has been provided from the State Auditor's office and concur with your recommendation that the district seek recovery of lost funds. Law enforcement as well as the auditor's office have been working closely with the school district since the first day the district office officials became aware of the theft. It is our expectation that the Thurston County Prosecutor will take appropriate legal action including seeking recovery of financial losses.

Auditor's Concluding Remarks

Based upon the district's response, it appears that adequate corrective actions have been or will be made. We will review the controls at New Century High School again during our next regular audit.

We would like to thank the staff of North Thurston School District for their assistance and cooperation throughout the course of the audit.

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Financial Statements

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the accompanying general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of North Thurston School District No. 3 as of August 31, 1996, and the results of operations for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 24, 1997, on our consideration of the district's internal control structure and a report dated March 24, 1997, on its compliance with laws and regulations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of North Thurston School District No. 3 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Drug-Free Workplace Act
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996. Those requirements include:

- types of services allowed or unallowed
- eligibility
- level of effort
- special tests and provisions related to carryover of funds, parent involvement, program effectiveness, private school participation, and timely obligation of funds for Educationally Deprived Children/Local Educational Agencies (Chapter 1 of ESEA) (CFDA 84.010); parent notification, rights and hearing process, individualized education progress, and timely obligation of funds for Special Education) State Grants (Part B, Education of the Handicapped Act) (CFDA 84.027) as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments* and grant agreement/contract
- claims for reimbursements

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, North Thurston School District No. 3 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended August 31, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the district provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that North Thurston School District No. 3 had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

NORTH THURSTON SCHOOL DISTRICT NO. 3
Thurston County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Chair, Board of Directors
North Thurston School District No. 3
Lacey, Washington

We have audited the general-purpose financial statements of North Thurston School District No. 3, Thurston County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 24, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated March 24, 1997.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Accounts payable
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Level of effort
 - Reporting
 - Special requirements
- **Claims For Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Drug-Free Workplace Act
 - Subrecipient monitoring

- **Specific Requirements**
Matching and earmarking
- **Claims For Advances**
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended August 31, 1996, the district expended 73 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997